



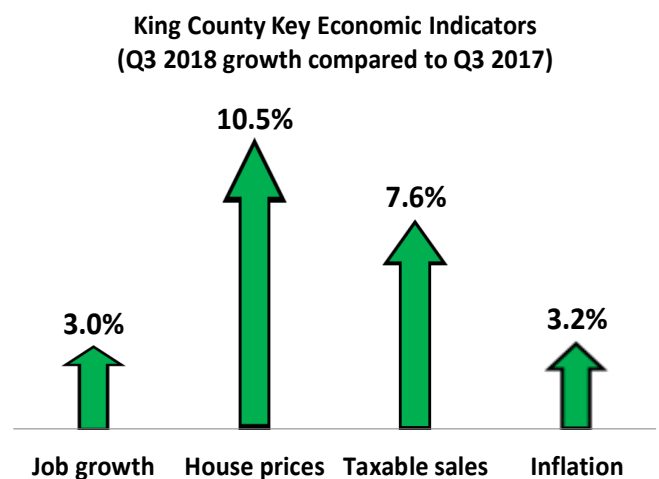
ECONPULSE

A QUARTERLY LOOK AT THE KING COUNTY ECONOMY
KING COUNTY OFFICE OF ECONOMIC AND FINANCIAL ANALYSIS

THIRD QUARTER 2018

SUMMARY

- King County employment grew at 3.0% in the third quarter of 2018 relative to 2017, with strong growth in information, professional and business services, and trade, transportation, and utilities jobs.
- Home prices increased by 10.5% compared with the third quarter of 2017.
- Taxable sales growth rose 7.6% in July and August.
- Inflation increased to 3.2% in August.



DETAIL

King County employment continued to grow in most sectors in the third quarter. Sectors experiencing declines include nursing and residential care, arts, entertainment, and recreation, and government. Professional and business services added 12,400 jobs in the third quarter of 2018 compared to the same time period in 2017. Job growth continued a slowing trend, with new job postings down 6.4% in the third quarter year over year. Amazon and the University of Washington remain the top employers in King County in terms of online job postings, however both posted fewer jobs from July through October than a year prior.

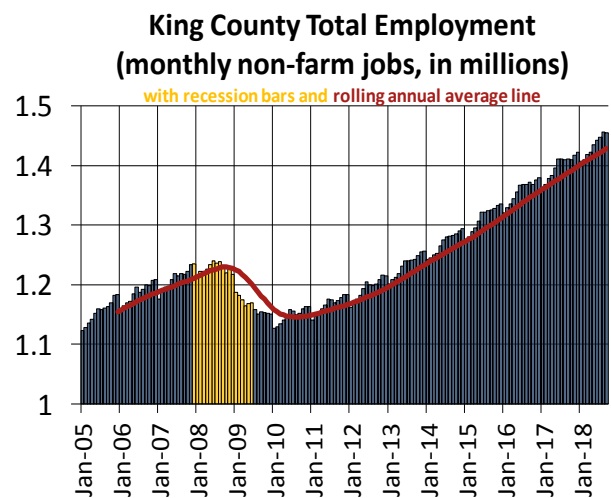


Fig. 1 Non-Farm Employment in King County (Source: WA ESD)

The unemployment rate for King County decreased to 3.4% in September while the national rate decreased as well to 3.7%. Initial claims for unemployment insurance continue to hit historic lows, with only 4,095 new claims in the month of September.

DETAIL (CONT.)

Seattle House Prices
(Case Shiller index, Jan-2000=100)

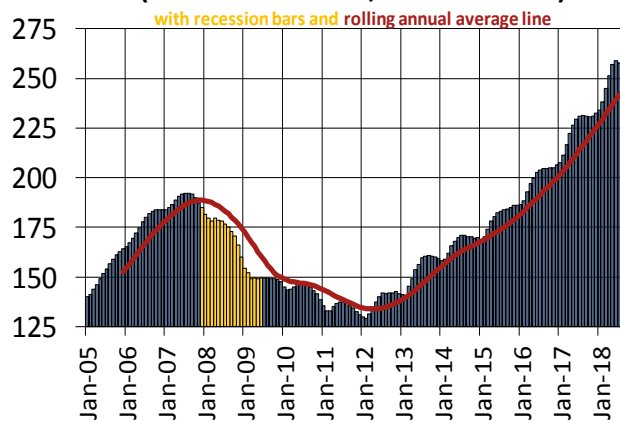


Fig. 2 Seattle Case-Shiller Index (Source: S&P)

The Seattle-area housing market cooled slightly in the third quarter, with prices increasing by 10.5%, making Seattle the third-fastest growing market in the country. The average home price in King County was up year-over-year, but began declining from its peak in June 2018, down to \$729,083 in September.

Single-family permitting was unchanged between the third quarter of 2017 and 2018. Multi-family permitting decreased sharply, with 43.7% fewer units permitted in the third quarter of 2018.

King County Residential Permit Values
(new, privately-owned, in millions \$)

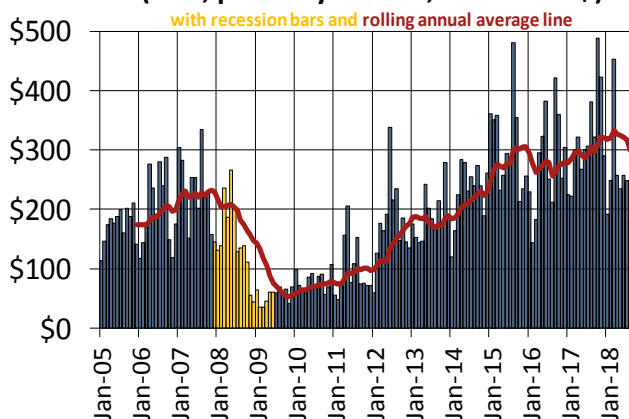


Fig. 3 Value of King County Residential Permits
(Source: U.S. Census Bureau)

Taxable retail sales growth increased 7.6% in July and August, with construction taxable sales increasing 12.7% compared to the same time period in 2017.

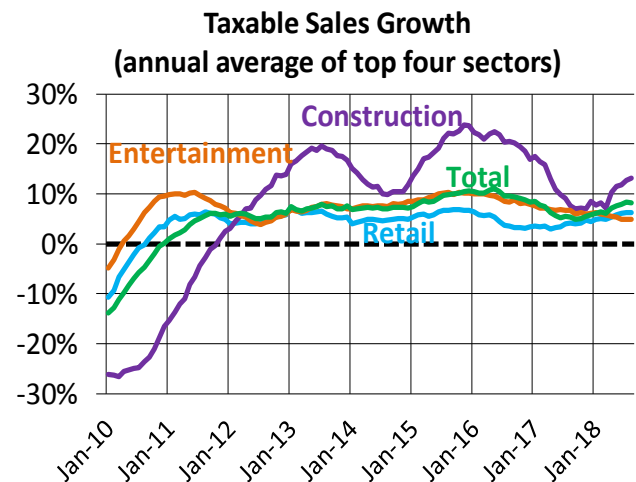


Fig. 4 Taxable Sales Growth in King County (12 month avg)
(Source: WA DOR)

Inflation slowed a bit, rising 3.2% in August as measured by the CPI-W for Seattle. Rising housing costs continue to drive increases both locally and nationally. National inflation rose 2.3% in September.

Seattle Inflation
(CPI-W, annually adjusted)

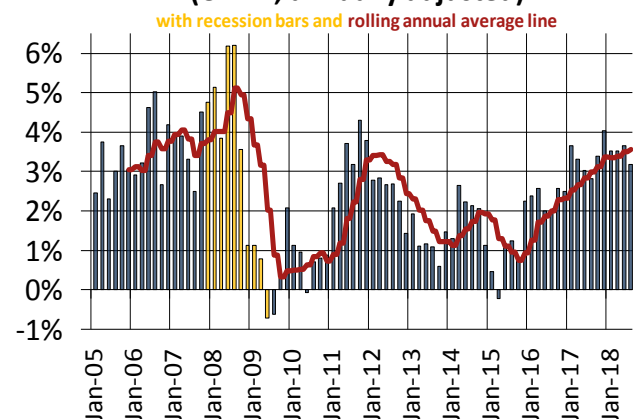


Fig. 5 Seattle Consumer Price Index (Source: BLS)

THE NUMBERS

King County Employment (in thousands)

NAICS Industry	2018:3Q	2017:3Q	Absolute change	% Change
Total Nonfarm	1,453.3	1,410.6	42.7	3.0%
Total Private	1,279.6	1,233.4	46.2	3.7%
Goods Producing	183.6	179.8	3.8	2.1%
Construction	77.3	76.0	1.3	1.8%
Manufacturing	105.8	103.3	2.5	2.4%
Service Providing	1,269.7	1,230.7	39.0	3.2%
Trade, Transportation, and Utilities	285.8	274.3	11.6	4.2%
Information	113.0	105.2	7.8	7.4%
Financial Activities	75.2	71.8	3.4	4.7%
Professional and Business Services	242.1	229.7	12.4	5.4%
Educational and Health Services	185.1	177.8	7.3	4.1%
Educational Services	29.6	26.8	2.8	10.6%
Ambulatory Health Care Services	62.1	59.9	2.2	3.7%
Hospitals	30.9	29.9	1.0	3.3%
Nursing and Residential Care Facilities	19.5	20.3	-0.8	-3.9%
Social Assistance	42.9	40.9	2.1	5.1%
Leisure and Hospitality	145.5	145.6	-0.1	-0.1%
Arts, Entertainment, and Recreation	25.9	28.4	-2.6	-9.0%
Accommodation	15.9	14.8	1.0	7.0%
Food Services and Drinking Places	103.8	102.3	1.4	1.4%
Other Services	49.3	49.1	0.1	0.3%
Government	173.7	177.2	-3.5	-2.0%

Other King County Economic Indicators

	2018:Q3	2017:Q3	% Change
Real Estate			
Single Family Permits (No. of units)	1,065	1,065	0.0%
Single Family Permits (\$000)	\$ 419,134	\$ 398,907	5.1%
Multi-Family Permits (No. of units)	1,964	3,490	-43.7%
Multi-Family Permits (\$000)	\$ 269,178	\$ 610,461	-55.9%
Avg. sales price (NW Multiple Listing Service)	\$ 738,125	\$ 689,376	7.1%
Number of sales (NW Multiple Listing Service)	8,620	10,295	-16.3%
Taxable Retail Sales (\$B, July-August)	\$ 12.12	\$ 11.27	7.6%
Retail/Wholesale	\$ 4.84	\$ 4.53	6.8%
Construction/Real Estate	\$ 3.70	\$ 3.22	15.0%
Food Service, Accommodation, Entertainment	\$ 2.07	\$ 1.99	4.3%
Other	\$ 1.52	\$ 1.53	-0.7%
Inflation (August)			
CPI-W (Seattle-Tacoma-Bellevue)	267.76	259.53	3.2%

KING COUNTY INDEX OF LEADING INDICATORS

In the third quarter of 2018, the King County Index of Leading Indicators increased on a seasonally adjusted basis, rising .45 over the quarter. Individual indicators were mixed; yield spread, residential permits, initial unemployment claims, and help wanted ads indicators decreased.

In recent months, the Index and most of its indicators have not produced a consistent trend. Each month, a different mix of indicators will decrease while others rise. One exception has been the yield spread. The Index uses the interest rate spread between the 10 year and the 3 month Treasury note, as it is a common leading indicator for the overall health of the US economy. As seen in Figure 7, the difference between long and short term Treasuries tends to decrease ahead of a recession (represented by the grey bars), approaching zero before entering negative territory. In 2018, the spread has been gradually decreasing, dropping below 1% in June. However, rather than assuming a recession looms, a couple of factors unique to the current environment serve to temper any alarm.

First, the reduced spread appears to be a reflection of the continuing low interest rate environment. The Federal Reserve began gradually increasing their benchmark rate in 2016 and accelerated the process in 2018, which has raised short term rates. Additionally, investors have been seeking high quality investments from the bond market, which has resulted in lower interest rates on long term products. These two factors together narrow the difference between short and long term interest rates, but don't mean investors expect interest rates to fall due to an impending recession.

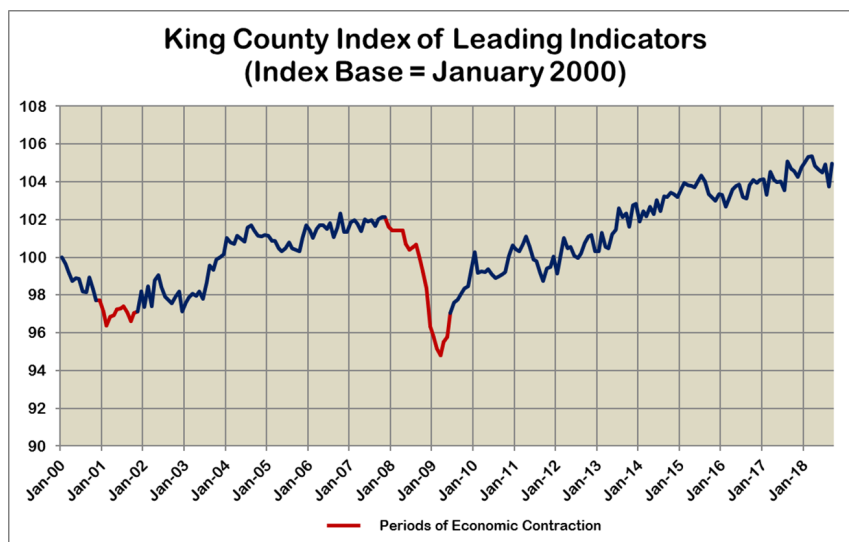


Fig. 6 King County Index of Leading Indicators (Source: KC OEFA)

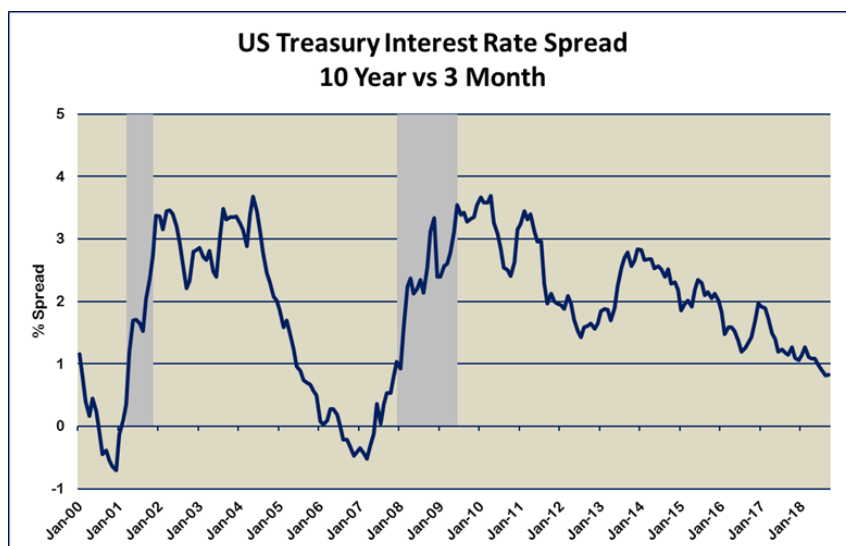


Fig. 7 US Treasury Yield Spread (Source: US Federal Reserve)

KING COUNTY FORECAST

The first estimate of U.S. economic growth for the third quarter came in at +3.5% and, though this number will likely get revised, it reflects another solid quarter after the second quarter came in up 4.2% in inflation-adjusted terms. This is strong growth and an increase over what we've seen in the recent past. This likely reflects the strong underlying fundamentals of the economy together with a boost from the 2017 tax changes. The job market has continued to hum along too, with continued job ads and an unemployment rate reaching 3.7% which is a level not seen since the 1960s. Job openings continued to reach new records with about 7 million unfilled jobs. Wage growth has been muted but has picked up some of late. Inflation has also picked up with the headline CPI measure varying between 2.3% and 2.9% in the last few months.

King County's economy continued to grow in the third quarter. Employment growth averaged about 3% up slightly from the 2.9% in the second quarter. Overall employment continues to grow solidly (+2.9% year to date) and has only slowed modestly from prior years. Industry growth was led by Information (+7.4%), Professional and Business Services (+5.4%) and Financial Activities (+4.7%). Unemployment in the county continues to stay in the 3% to 4% range with the September value at 3.4%.

Taxable retail sales have picked up a little this year with current month sales up about 8.5% through August. This increased growth was expected since the State extended taxable sales to bottled water and remote sellers beginning in January 2018. The Supreme Court's decision on Wayfair vs. South Dakota is expected to increase sales even more via slightly higher compliance. Taxable sales strength has been showing up in retail (likely reflecting the remote sellers) and resurgent construction sales taxes which are up about 13% so far this year.

The local housing market has been experiencing a rapid increase in sales prices. The Case-Shiller residential index has been growing in double digits since 2015. However it has been slowing of late and the most recent value from August 2018 was up 9.6%, the first time it fell below double digit growth since December 2015. This is likely due to both an increase in listings and reduced demand as higher interest rates make mortgages more expensive and a stronger dollar reduces the attraction of the area to foreign buyers.

The local economy is showing a few signs of a slower pace of growth. As mentioned last quarter, online help-wanted ads were down in 2017 and continue to be down in 2018. Home prices continue to grow but the recent pace of growth has slowed as mentioned above. Multi-family building permits have also been down in 2018. Multi-family construction has been a large part of the construction boom the region has been experiencing. This reflects overall population growth and the preference of many, mostly younger workers, for urban amenities and lifestyle. Some estimate that over 12,000 new apartments will open in Seattle alone in 2018¹. It is just not possible to sustain this kind of apartment construction growth and so a slowdown in permits and construction has been expected (Fig. 8 on following page).

¹ "Seattle's record apartment boom is ready to explode; what it means for rents", Seattle Times, December 30, 2016.

KING COUNTY FORECAST (CONT.)

Inflation has picked up lately mostly driven by higher housing costs and so the local CPI measures are exceeding 3% in 2018.

We expect the local economy to continue to grow but at a reduced rate of growth going forward. The challenging part is the timing of this slower growth. Table 1 on the following page shows the forecast with slower growth beginning for most items in 2018. Population growth should continue but likely in the 1% to 2% range with about 20,000 to 30,000 new people in each of 2019 and 2020.

Employment growth should continue to be strong at 2.7% in 2018 and then slow to about 2.3% in 2019. Inflation is likely to accelerate in 2018 and 2019 before beginning to slow. We expect the pace of housing permits to finish down this year, but housing prices will continue to grow, albeit at a slower pace. Taxable sales growth is likely to continue to be up for 2018 reflecting the changes to the tax base but we expect slower growth in 2019-2020 as construction growth slows.

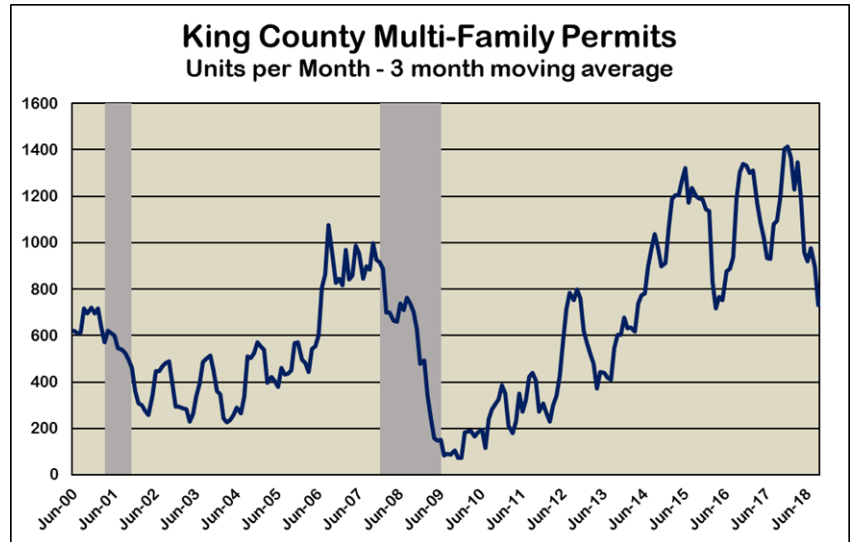


Fig. 8 King County Multi-Family Permits (Source: US Census Building Permits Survey)

KING COUNTY FORECAST (CONT.)

King County Forecast - September 2018				
	2017	2018	2019	2020
King County-Level				
Population (thous.)	2,164.1	2,198.6	2,226.9	2,248.6
Employment (thous.)	1,398.5	1,436.7	1,469.1	1,487.9
Unemployment Rate (%)	3.7	3.6	3.4	3.6
Personal Income (mil \$)	174,815.3	183,444.4	192,800.8	202,067.9
Housing Permits	18,224	16,422	15,337	12,781
House Transactions (Residential)	33,460	32,564	30,710	30,856
House Prices (avg.)	697,871	757,844	818,547	852,123
Seattle FHFA Index	325.2	363.1	384.0	394.0
Seattle CPI-U	262.7	271.8	280.4	287.1
Taxable Retail Sales (mil \$)	65,826.1	71,354.9	74,464.4	76,097.1
King County Employment - Detail (thousands)				
Natural Resources	0.5	0.5	0.5	0.5
Construction	74.4	76.2	76.4	76.8
Manufacturing	103.0	103.6	102.5	101.1
Subtotal (Goods Employment)	177.9	180.4	179.4	178.3
Trade, Transportation and Utilities	269.2	279.2	284.4	284.3
Information	102.8	108.3	112.5	114.5
Financial Services	71.0	73.6	72.9	72.1
Professional and Business Services	227.6	235.4	245.4	254.0
Other Services	368.7	377.9	387.8	395.6
Government	181.4	182.0	186.8	189.1
Subtotal (Services Employment)	1,220.6	1,257.4	1,287.7	1,303.6
Total Employment	1,398.5	1,436.7	1,469.1	1,487.9
Annual Growth				
Population	2.2%	1.6%	1.3%	1.0%
Employment	3.0%	2.7%	2.3%	1.3%
Personal Income	5.3%	4.9%	5.1%	4.8%
Inflation	3.0%	3.5%	3.2%	2.4%
Taxable Retail Sales	5.8%	8.4%	4.4%	2.2%

Table 1: King County Forecast (Source: KC OEFA)

The Office of Economic and Financial Analysis operates as an independent agency of King County, and provides economic and financial analysis and forecasting to support county operations and planning and the people of King County.

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